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Report Highlights:

The marketing year (MY) 2022/23 total cotton production area for Uzbekistan is forecast as 980,000 hectares (ha) and the cotton production is estimated as 675,000 metric tons (MT) (3.10 million bales). Post forecasts MY 2022/23 consumption of cotton to be about 653,000 MT (3 million bales) for MY 2022/23. The longstanding forced labor cotton harvesting issue was adequately solved in the perception of international NGOs. On March 01, 2022, the International Labor Organization (ILO) declared that "Uzbek cotton is free from systemic child labor and forced labor".

I. Production

The marketing year (MY) 2022/23 total cotton production area for Uzbekistan is 980,000 hectares (ha), slightly higher than the last MY since the demand for cotton is increasing in the country with the increased investments in yarn production facilities by production clusters. Post estimates the MY 2022/23 lint cotton production as 675,000 metric tons (MT) (3.10 million bales).

In general, the rains in Spring 2022 were adequate for the cotton plants; however, the heat at the peak of summer during the daytime was higher than recent years, which caused a larger temperature spread between the daytime and nighttime. The high temperature spreads between day and night caused the cotton plant to stress and produce less in many of the regions.

As of Fall 2022, there are 134 cotton clusters (vertically integrated cotton producing private companies) in Uzbekistan according to the Uzbek Association of Cotton-Textile Clusters (UACC), all producing cotton, ginning the cotton, and spinning yarn. Some of these clusters also produce fabric and some others are fully vertically integrated, producing ready-to-wear garments, too.

These clusters all have some land which is dedicated to cotton production, but additionally, they contract the farmers in the region to produce cotton. The farmers in a region are required to contract with a specific cotton cluster and cannot sell the cotton they produced to other clusters, even in the same region. Furthermore, a minimum cotton price is "advised: annually by the Government of Uzbekistan (GoU), and it is close to impossible, if not totally inaccessible, for farmers to sell the cotton at a higher price.

Many of Uzbekistan's 134 cotton producing clusters have efforts to improve soil quality by increasing the organic material of their arable cotton fields. In addition, many use washing techniques for the soil to decrease the increasing salinity. The quality of the soil is not nearly close to ideal for cotton production, according to market sources, due to decades of continued cotton growing in the country since Soviet times. Likewise, the salinity of the soil has been increasing due to climate factors and scarcity of water. Although it is very hard to get ideal yields of cotton from the land, these investments in enriching the soil's nutrients will maintain the current yields of the fields if continued and may even lead to slight increases.

Both GoU and UACC, in addition to market sources, indicate that mechanical cotton picking is increasing in the country, as it is getting harder to get enough workers for cotton picking. It is also getting more expensive to use hand picking. Post estimates that currently a small amount of the cotton is mechanically harvested. Market sources indicate that this will increase quickly as clusters are investing in mechanical pickers. These pickers are intended to be used also to harvest the fields of the farmers in the region contracted to the cluster.

According to UACC, 85 percent of the needed chemical fertilizer is produced domestically which eases the access to fertilizer by the cotton clusters, an advantage for production. However, fuel and fertilizer prices have rapidly increased in the past year, increasing costs by 50-60 percent and narrowing the profit margins of growing cotton.

As of September 2022, with a presidential resolution on "Additional measures to increase the income of the population by supporting the creation of *dekhkan* farms," territories with good water supply, close to settlements, free from cotton and grain, in use by farms and clusters, are leased to the population through an open electronic competition until the end of 2022: 100,000 hectares in 2022 and 95,169 hectares of sown area in 2023 will be allocated to help diversify crops and increase food security. As of October 2022, the president of Uzbekistan continues to mention in press reports that cotton fields will be contracted to be distributed to farmers for growing food sources. This, if realized, should decrease the land used for cotton production. On the other hand, the yield improvements both in production and ginning should compensate for these losses of planting area. Post predicts that in the short-to-medium term, even with yield improvements, such a large amount of land taken out of cotton production would affect total production. As such, some market sources indicated that while the decreed amount of land is being transferred to farmers, other land is being re-allocated to clusters; therefore, the cotton planting areas are not decreasing as much as mentioned above.

As reported by the Uzbekistan Ministry of Agriculture, Uzbekistan is working on producing organic cotton as well as BCI (Better Cotton Initiative) cotton, with a goal of achieving both in a few years. Three clusters in Uzbekistan are working on producing BCI cotton on 35,000 ha of land according to the Ministry of Agriculture. Additionally, 12,000 ha are in the transition process to organic production as of 2022. However, there are no organic certification processes, either domestically or to meet foreign criteria, currently occurring in the country. The industry expects these products to emerge in a few years after the transition period of the dedicated fields.

II. Consumption

Post forecasts MY 2022/23 consumption of cotton to be about 653,000 MT (3 million bales). Despite challenges such as the armed conflict and macro-economic difficulties effecting the region, investments in the textile industry in Uzbekistan continue. These large investments in the yarn and fabric industry, be it domestic or foreign direct investments, hint that the consumption of cotton in Uzbekistan will continue to increase in the medium-term. However, with a European recession emerging due to fallout from the Ukrainian-Russia conflict, the ready-to-wear apparel demand from consumers in the west is contracting, as orders for spring clothing dropped sharply.

In the next several years, Uzbekistan may start to import cotton as the investments in yarn, fabric and ready-to-wear-garment industry continue. Some market sources indicate that it was already difficult to source enough cotton for MY 2021/22.

Post predicts that as the demand for cotton yarn will decrease for MY 2022/23 in Uzbekistan due to decreasing apparel and garment orders from the west to apparel and garment producing countries; therefore, the demand for cotton will not increase in Uzbekistan for MY 2022/23 even though there are commissioning new yarn production investments in this time frame. Nevertheless, these investments will increase the demand for cotton in Uzbekistan in the medium-long term when markets start recovering from the recession.

The ready-to-wear-apparel and garment orders from major European and American brands dropped as of Fall 2022 with the expectations of an economic recession in Europe and increasing inflation rates in the EU and U.S. For Fall/Winter 2022, brands ordered only minimal levels of products, anticipating a fall in consumer spending in the retail clothing sector. Turkey, China, Bangladesh, and the EU are the most important buyers of Uzbek yarn, and fabric producing companies in these countries have slowed or halted down or stop ordering Uzbek yarn which will inevitably slowdown the consumption of cotton in established facilities in Uzbekistan. On the other hand, because of new spinning and textile investments beginning to operate in the coming months, Post predicts that Uzbekistan cotton consumption will be flat for 2022/23, remaining at a similar level to the previous MY. If the apparel orders from western buyers don't pick up in 2023, Uzbek yarn factories would have to produce for stock inventory or lessen production.

III. Trade

In accordance with the new GoU policy of avoiding raw cotton lint exports in favor of value-added yarn and cotton textiles, exports of cotton from Uzbekistan diminished greatly in MY 2021/22 as seen below in Table 1. This trend will continue in MY 2022/23 too as Uzbekistan uses almost all domestically produced cotton for the domestic yarn factories, as spindle investments in country is increasing. As Uzbekistan does not have available customs or accurate commodity statistics, totals are derived from importing destinations' customs statistics.

In MY 2021/22, Turkey was the only notable importer of cotton from Uzbekistan. Market sources explain that this material is mostly reusable cotton waste from Uzbek yarn factories used in the production of hydrophilic cotton for medical and cosmetic use, hygienic pads, and diapers, in addition to some lower quality open-end cotton yarn. Turkey is a sizable producer of the aforementioned products for both domestic use and also export to EU.

As yarn production increased in Uzbekistan with major new investments coming on line in the last 6-12 months, in MY 2021/22, Uzbekistan started importing cotton from the neighboring countries of Kazakhstan, Kyrgyzstan and Tajikistan. As the demand for cotton yarn will decrease in MY 2022/23 from fabric and garment producing countries globally because of expected recession, the cotton need of the Uzbek yarn factories is expected not to increase for MY 2022/23 and for the short-term, the small amount of imports of cotton from the same neighbors will be enough. Post predicts that Uzbekistan will need to import cotton if demand for Uzbek cotton yarn increases in upcoming years as the cotton production in the country will not be enough by itself for the growing spinning capacity.

As expected, Uzbekistan cotton yarn and cotton fabric sales have significantly increased in lieu of cotton exports. Uzbekistan became a yarn producer and exporting country and is aiming to be a significant fabric and ready-to-wear-apparel and garment producer and exporter in the future.

Table 1: Cotton Exports from Uzbekistan (HS Code: 5201), 480lb. Bales and Metric Tons

UZBEKISTAN			
COTTON			
Export Trade Matrix*			
Units:	Bales		
Time Period	Aug/July	Aug/July	Aug/July
Imports for:	MY 2019/20	MY 2020/21	MY 2021/22
Turkey	60,296	126,068	23,589
EU 27 (excl. UK)	312	1,892	2,834
Kazakhstan	2,779	2,172	1,768
Belarus	294	427	482
China	59,773	29,037	0
India	997	0	0
Kyrgyzstan	0	32	0
Russia	3,560	3,610	0
TOTAL	**128,010**	**163,239**	**28,674**

UZBEKISTAN			
COTTON			
Export Trade Matrix*			
Units:	Metric Tons		
Time Period	Aug/July	Aug/July	Aug/July
Imports for:	MY 2019/20	MY 2020/21	MY 2021/22
Turkey	13,128	27,448	5,136
EU 27 (excl. UK)	68	412	617
Kazakhstan	605	473	385
Belarus	64	93	105
China	13,014	6,322	0
India	217	0	0
Kyrgyzstan	0	7	0
Russia	775	786	0
TOTAL	**27,871**	**35,541**	**6,243**

Source: Trade Data Monitor

** Uzbekistan does not report trade statistics and is not a WTO member; therefore, the totals will not exactly match the PS&D tables. These numbers are derived from importing destinations. The table is presented to show the largest buyers of Uzbek cotton by approximately size.*

Table 3: Cotton Yarn Exports from Uzbekistan (HS Code: 5204, 5205, 5207), Metric Tons

UZBEKISTAN			
COTTON YARN			
Export Trade Matrix*			
Units:	Metric Tons, Calendar Year		
Imports for:	2020	2021	2022 (through Sept.)
USA	36	291	98
Turkey	90,183	125,607	118,313
China	188,139	258,814	80,985
EU 27 (Brexit)	13,816	20,406	13,457
Russia	98,631	107,225	7,337
Peru	270	2,182	1,779
Ukraine	2,818	3,920	1,729
Belarus	3,503	3,444	846
Kazakhstan	370	430	447
Egypt	15,314	18,673	420
South Korea	309	623	408
Others	4,659	7,244	2,308
TOTAL	**418,048**	**548,859**	**228,127**

Source: Trade Data Monitor

** Uzbekistan does not report customs or trade statistics and is not a WTO member; therefore, the totals will not account for all export figures. Additionally, Russia has stopped reporting customs statistics; numbers for Russia are only valid through February 2022.*

Table 4: Cotton Fabric Exports from Uzbekistan, (HS Code: 5208, 5209), Square Meters
(thousands of square meters (m^2))

UZBEKISTAN			
COTTON FABRIC			
Export Trade Matrix*			
Units:	**Units: 1,000 m2, Calendar Year**		
Imports for:	**2020**	**2021**	**2022 (9 Months)**
USA	1	0	0
EU 27 (excl. UK)	53,793	52,078	26,430
Kazakhstan	33,426	25,768	16,981
Russia	511,839	188,578	12,723
Ukraine	15,277	12,815	11,467
South Korea	5,078	6,633	4,029
Turkey	0.003	2,805	2,573
UK	645	1,555	369
Belarus	580	2,485	262
Japan	145	435	145
North Macedonia	1	1	7
Others	30	8	7
TOTAL**	**620,815**	**293,161**	**74,993**

Source: Trade Data Monitor
** Uzbekistan does not report customs or trade statistics and is not a WTO member; therefore, the totals might not account for all export figures. Additionally, Russia has stopped reporting customs statistics; export numbers for Russia are only valid through February 2022.*
***A few countries measure fabrics in terms of MT unlike most countries who measure fabrics by m^2. For 2022, Kyrgyzstan's imports were 712 MT, Morocco's 322 MT, China's were 97 MT. All are negligible amounts in world trade.*

IV. Policy

With a presidential decree entitled "*Additional organizational measures to increase the yield of cotton, introduce science and innovation in the cultivation of cotton*," the Council for Cotton Growing was established in 2022. In July, the president chaired a meeting on current issues affecting cotton growing. All stakeholders involved in the cotton industry in Uzbekistan are aware of the climate change and depleting water resources gripping the country. There are initiatives by the GoU in cooperation with clusters to produce high-yielding, early-ripening and salt-tolerant varieties of cotton.

Minimum Price of Cotton

In accordance with the resolution of the President of the Republic of Uzbekistan *"On measures for the widespread introduction of market principles in the field of cotton growing,"* the Ministry of Agriculture, the Ministry of Economic Development and Poverty Reduction, the Council of Farmers, Dekhkan Farms and Owners of Household Plots of Uzbekistan, and the Uzpakhtasanoat (Cotton Growers) Association were entrusted with the duty to announce the expected minimum prices for raw cotton allegedly based on an analysis of prices on the world market.

In the beginning of August 2022, the Ministry of Agriculture announced that the minimum price of one MT of medium-staple cotton grown in Uzbekistan is 10.03 million Uzbek Soms (UZS) (approx. $913) and the minimum price of one ton of fine-staple cotton is 15.12 million UZS (approx. $1378).

Technically, based on this recommended minimum price, raw cotton producers and buyers determine the cost of raw cotton on the basis of a mutually beneficial contract. However, market sources and independent researchers indicate that in reality, farmers, especially small farmers, are unable to negotiate prices since they cannot sell the cotton in the free market except to the designated cluster in their region. Thus, the government-declared price becomes the accepted price of the cotton till the end of the harvest.

Land Use

As a part of its national agricultural policy, the GoU has been looking to diversify crops, moving away from cotton and promoting food security and land ownership opportunities for low-income and smallholder farmers. In a presidential resolution entitled "*Measures to develop family entrepreneurship in horticulture and viticulture*" dated November 2021, the GoU announced 200,000 ha of land currently used for cotton and grain will be made available for lease to farmers between 2022 – 2025 for the cultivation of horticulture and viticulture products (80,000 ha in 2022, 53,441 additional ha in 2023, 39,012 in 2024, and 27,585 in 2025). The presidential decree states that land lots from 0.1 ha to 1 ha will be leased to each eligible farmer that applies for the program. Some credit lines from GoU will be available to lessees after they are given the land to be able to start cultivation. In July 2022, the president declared at a conference on increasing food production and increasing incomes of the population that 80,000 ha of land that was formerly used for cotton and grain production was indeed allocated to the farmers for these purposes in 2022.

In January 2022, four new cotton – textile clusters, on approximately a total of 20,000 ha, were established. The overall cotton production area should not increase significantly from the last MY because some historical cotton production land has been transferred to the cultivation of horticulture and viticulture in alignment with government policies and the consolidation of cotton production into the vertically integrated clusters and away from the marginal land used to previously fulfill government-mandated quotas. Although new cotton clusters may be formed, the GoU is not aiming to increase cotton production areas and would struggle to do so with limited water resources.

Forced Labor Issues

The most important policy update regarding cotton in Uzbekistan in 2022 was that the longstanding forced labor issue was adequately solved in the perception of international NGOs. On March 01, 2022, the International Labor Organization (ILO) declared that "*Uzbek cotton is free from systemic child labor and forced labor.*" Many fashion and ready-to-wear-apparel brands had refused to purchase apparel and garments produced from fabrics or yarn made from Uzbek cotton due to the child labor and forced labor issues. As of 2021 there were 331 brands that pledged not to buy apparel produced from Uzbek cotton, including many U.S. brands. On March 10, 2022, the coalition of companies called *Cotton Campaign* ended its call for a boycott for Uzbek cotton. The Cotton Campaign has been advocating for labor rights in cotton production in Uzbekistan since 2010. The issue they will focus on now is the very low wages paid to cotton workers in Uzbekistan. One of the final measures implemented to stop child and forced labor in Uzbekistan was the GoU resolution "*On additional measures to finance the harvest of raw cotton in 2021*.".

This news was very much welcomed by the government and cotton, textile, and garment and apparel production industries and markets in Uzbekistan and has the potential to increase yarn and fabric exports of Uzbekistan to an extent. However, as most of Uzbekistan's cotton products are currently exported, the room for increase is limited. In the medium-to-long run, purchases from ready-to-wear-apparel producers of Uzbekistan might increase, especially in western markets like the EU, UK, and U.S., with

current restrictions on cotton products made with forced labor. Turkish textile and ready-to-wear-apparel companies might increase investments in Uzbekistan for sourcing to western brands. These positive developments could lead to the opening of production facilities of some international brands in Uzbekistan; however, the perceived investment risk in the country is still quite high for western brands.

Reform Policy Claims Don't Meet Scrutiny

The modernization of the agriculture industry, and in particular cotton production, is continuing. The Deputy Prime Minister informed the public that the presidential decree from 2020 for increasing water saving technologies has been implemented as of 2021. According to the Ministry of Agriculture, water-saving technologies have been introduced on 515,200 ha land in 2021, of which 197,200 ha were drip irrigation systems. According to GoU, the total area of technologically irrigated land reached 917,000 ha in Uzbekistan (20 percent of the total the irrigated area). However, according to the UN's Food and Agriculture Organization (FAO), drip irrigation is only used on 0.11 percent of land; the rest is mostly watered with flood surface irrigation. Seventy percent of the irrigated land in Uzbekistan is devoted to cotton, which is one of the most water-intensive crops. According to a research report published this year, the open canal irrigation system wastes as much as 37 percent of water before reaching the fields. Uzbekistan uses five times more water than neighboring Kazakhstan to produce one unit of GDP, 22 times more than the United States, and 74 times more than Australia, according to data published by the World Bank.

EU

As of April 10, 2021, Uzbekistan was included in the EU's *Generalized Scheme of Preferences*[1] *(GSP+),* which qualifies certain Uzbek exports for duty free access to the EU market on approximately 66 percent of EU tariff lines as a special incentive to support vulnerable developing countries that ratify 27 international conventions on human rights, labor rights, environmental protection and climate change, and good governance. This policy has already increased textile and ready-to-wear-garment and apparel exports to the EU by 70 percent in 2021 and an additional 28 percent in 2022.

The European market is especially interested in expanding investment and ties with Uzbekistan. The European Bank of Reconstruction and Development provided $60 million to a company called *Indorama Agro* to conduct modern, mechanized, and technologically irrigated cotton farming with crop rotation in Uzbekistan. Indorama Uzbekistan was established in 2018 after the privatization of the industry and produces cotton on 50,000 ha land and contracts another 25,000 ha land from farmers. The farm does everything from planting to ginning as a private cotton cluster. These kinds of investments should increase the cotton yields in Uzbekistan in medium to long run.

Additionally, an "Agro Insurance Conference" was held in Tashkent in February 2022. Several European insurance companies from Switzerland, Germany, and France participated with the lead of a local insurance company agent, supported by the Uzbekistan Ministry of Agriculture, the Uzbekistan Ministry of Finance, and the Uzbekistan Agency for the Development of the Insurance Market. A campaign for awareness on the benefits of the use of agricultural insurance will be created in the country in the coming years within the ongoing agricultural reform envisioned in the "*Agricultural Development Strategy of the Republic of Uzbekistan for 2020 – 2030.*" The crop insurance is available for the entire

[1] The EU's Generalized Scheme of Preferences (GSP), created following UNCTAD recommendations in 1971, helps developing countries (DC) by making it easier for them to export their products to the European Union. This is done in the form of reduced tariffs for their goods when entering the EU market.

range of crops grown in the country but is being specifically recommended for cotton and wheat, the two main crops of Uzbekistan.

Irrigation

Investments in the leveling of the land and new irrigation systems will also help keep the current yields stable for the near future, if continued. According to UACC, laser leveling and the establishment of modern irrigation systems in a field result in a water savings of 50 percent. However, even these investments may not prove enough given the effects of climate change and decreasing water resources in the long term.

The Asian Development Bank (ADB) has approved a $150 million loan and a $3 million grant to help improve food and water security in Uzbekistan through better land and water resources management for improved agricultural productivity. An estimated 90 percent of all water resources used in Uzbekistan goes to agriculture, including wheat and cotton irrigation, but climate change is affecting water supply. The project will establish climate-resilient and modernized irrigation systems in the Amu Darya and the Zarafshan River basins by improving water measurement and modernizing existing irrigation and drainage infrastructure. The project will help improve on-farm water management, introduce technology, and scale up practices to increase water productivity. It will also allow irrigation systems to adapt to more frequent water shortages and enable water users to cope better with climate variability.

V. Production, Supply and Distribution Tables

Table 5: Production, Supply and Distribution Table, Bales
(thousands of hectares, thousands of 480lb. bales)

Cotton	2020/2021		2021/2022		2022/2023	
Market Begin Year	August 2020		August 2021		August 2022	
Uzbekistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,060	970	1,060	975	1,070	980
Beginning Stocks	2,484	1,253	2,119	1,323	1,664	1,673
Production	3,150	3,300	2,700	3,100	2,700	3,100
Imports	25	0	60	600	75	100
Total Supply	5,659	4,553	4,879	5,023	4,439	4,873
Exports	450	230	75	250	100	80
Use	3,090	3,000	3,140	3,100	2,750	3,000
Total Dom. Cons.	3,090	3,000	3,140	3,100	2,750	3,000
Ending Stocks	2,119	1,323	1,664	1,673	1,589	1,793
Total Distribution	5,659	4,553	4,879	5,023	4,439	4,873

Source: USDA forecasts, FAS Istanbul forecasts.

Table 6: Production, Supply and Demand Table, Metric Tons
(thousands of hectares, thousands of MT)

Cotton	2020/2021		2021/2022		2022/2023	
Market Begin Year	August 2020		August 2021		August 2022	
Uzbekistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1,060	970	1,060	975	1,070	980
Beginning Stocks	541	273	461	288	362	364
Production	686	718	588	675	588	675
Imports	5	0	13	131	0	22
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	1,232	991	1,062	1,094	950	1,061
Exports	98	50	16	54	22	17
Use	673	653	684	675	599	653
Loss	0	0	0	0	0	0
Total Dom. Cons.	673	653	684	675	599	653
Ending Stocks	461	288	362	364	330	390
Total Distribution	1,232	991	1,062	1,094	950	1,061

Source: USDA forecasts, FAS Istanbul forecasts.

Attachments:

No Attachments